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TAGS: [ECON](#) [EFIN](#) [ENRG](#) [EPET](#) [AJ](#) [RU](#)

SUBJECT: RUSSIAN BANKING GIANT EYES AZERBAIJAN'S BANKING
SECTOR

Classified By: AMBASSADOR ANNE E. DERSE PER REASONS 1.4 (B,D)

11. (C) SUMMARY: Russia's second largest state-owned bank, Vneshtorgbank (VTB), is reportedly interested in purchasing 50 percent of Azerbaijan's stated-owned Kapital Bank. Kapital Bank is currently the second largest bank in Azerbaijan with USD 186 million in assets. VTB has been keen to enter the Azerbaijan's financial and banking sector since early 2006 when the bank's Chairman and CEO Andrey Kostin met with Azerbaijani President Aliyev. Contacts at local private bank have confirmed that VTB is interested in purchasing a large share of Kapital Bank. Despite its sizeable assets and largest branch system, Kapital Bank is probably the least modern of the leading Azerbaijani banks in terms of corporate governance and overall operations. END SUMMARY

12. (SBU) Russia's second largest bank, Vneshtorgbank, is interested in purchasing 50 percent of state-owned Kapital Bank, according to National Bank Chairman Elman Rustamov. VTB, established in 1990 and 99.9 percent owned by the Russian Federation, would become one of the largest international banks to operate in Azerbaijan's relatively small banking sector. On April 16, VTB and local private bank Unibank announced a syndicated loan facility valued at USD 15 million. This transaction is the first fully syndicated facility for an Azerbaijani private bank without the mediation of an international development institution.

13. (SBU) VTB has been keen to enter Azerbaijan's financial and banking sector since early 2006 when the bank's Chairman and CEO Andrey Kostin met with Azerbaijani President Aliyev. During that visit, Kostin also announced plans to invest in large joint projects with the State Oil Company of the Azerbaijani Republic (SOCAR) in the oil and gas sector in Azerbaijan. To date, however, there have been no public announcements regarding any SOCAR-VTB projects. Bilateral Azerbaijan-Russia trade in 2006 totaled USD 1.5 billion, a large increase compared to 2005.

14. (SBU) Kapital Bank is currently the second largest bank in Azerbaijan with AZN 149 million (USD 186 million) in assets and AZN 123 million (USD 154 million) in liabilities. In February 2007, Fitch upgraded the bank's default rating from B to BB minus. Privatization of Kapital Bank had been discussed for a few years and a Presidential Decree in March 2005 laid the foundation for the partial privatization. On April 16, the State Committee on State Property announced an auction to partially privatize Kapital Bank. According to the State Property Committee, Kapital Bank will issue additional shares by the end of June 2007. These shares will be auctioned off in five equal lots worth a total of USD 15 million.

15. (C) COMMENT: Contacts at local private bank, Bank

Respublica, have confirmed that VTB is interested in purchasing a large share of Kapital Bank, noting that the public announcements of the impending purchase signal the seriousness of the sale. Despite being a sector leader due to its assets size and branch system, Kapital Bank is probably the least modern Azerbaijani bank in terms of corporate governance and operations. The bank's client base consists of mostly medium and small state enterprises, with these relationships relying heavily on government control and support. Kapital Bank is not a favorite among private businesses and consumers, because of a substantial Soviet-era legacy in its culture, corporate governance, and operations. Kapital Bank's standing, however, could change if VTB raises the level of corporate governance, modernizes operations, and offers attractive products and loans to businesses and consumers. While common history and traditions may help build relations, it remains to be seen whether VTB can transform Kapital Bank into a leading banking institution.

END COMMENT.

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